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Poland

Tobacco and Products

Annual Report - Updated

2000

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Report Highlights:

1999 cigarettes trade data were officially published today. There are discrepancies in exports figures for 9 months and a full year. This report corrects PSD and trade matrixes for manufactured tobacco, as well as comments in a part concerning cigarettes exports.

Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

Warsaw [PL1], PL

EXECUTIVE SUMMARY	1
CIGARETTES	2
Production	2
Production policy	2
Consumption	4
Trade	4
Tariffs and non-tariff barriers	5
Marketing	6
Tobacco, Mfg., Cigarettes - PSD	7
Tobacco, Mfg., Cigarettes - Import	8
Tobacco, Mfg., Cigarettes - Export	9

EXECUTIVE SUMMARY

Since the end of 1999, all cigarette manufacturing plants in Poland have been privately owned or controlled. The plants which were privatized earliest have completed their five year obligation under their privatization agreements to maintain 40 percent domestic tobacco content within their domestic brand cigarettes. Tobacco area is expected to decrease slightly reflecting indications from some tobacco processors that they intend to contract for less domestic tobacco in 2000. Larger area decreases may be in store within the next few years. However, efforts to protect domestic production by raising import taxes which surfaced in late 1999 could resurface again given the relatively well organized efforts of the tobacco producers association.

The predicted decline in tobacco area will be tempered to some extent by Polish farmers efforts to switch from dark to the preferred light tobacco varieties used to produce Western brand cigarettes. The efforts to switch to light tobacco varieties have been supported with technical assistance from some cigarette manufacturers. Increasing Polish production of Western brand cigarettes has led to a decline in cigarette imports from 549 million pieces in CY 1998 to 450 million pieces in CY 1999. Cigarette imports are expected to remain at 450 million pieces in CY 2000.

Cigarette exports slightly increased from 4.6 billion pieces in 1998 to 4.7 billion pieces in 1999 including 1.7 billion pieces exported to Slovenia. Cigarette exports are expected to be kept similar in 2000 as producers gradually shift production toward Western brands for the domestic and Western European markets.

Poland's restrictions on cigarette advertising and sharp excise tax increases on cigarettes are expected to result in a decrease in cigarette consumption from 68.7 billion pieces in 1998 to 68.5 billion pieces in 2000. Reduced export quantities and, to a lesser extent, lower domestic consumption are expected to result in a decrease in domestic cigarette production from 94.6 billion pieces in 1999 to 92 billion pieces in 2000. Reflecting the decrease in cigarette production expected to occur in 2000, imports of raw tobacco are expected to decrease from 50,000 tons in 1999 to 41,000 tons in 2000.

CIGARETTES

Production

Poland primary tobacco product is cigarettes with 94.6 billion pieces produced in 1999 down from 96.5 billion pieces produced in 1998. Other tobacco products, like pipe tobacco, cigars and snuff, account for less than 0.1 percent of consumption and are mainly imported. The production and sale of snuff is prohibited.

Cigarettes are produced in 11 plants owned by 7 independently-managed companies. Since early 1998, all manufacturing plants are owned or controlled by private investors. According to privatization agreements, the companies are required to invest in modernization of the industry, which they have successfully accomplished. To respond to a growing demand for light cigarettes with low tar and nicotine content, cigarette manufacturers have introduced modern production lines and provided technical assistance to farmers in switching to new tobacco varieties.

Ninety-nine percent of cigarettes available on the Polish market are produced in Poland. Sixty-five percent of all cigarettes on sale are traditional Polish brands in which a large part of the tobacco is Polish.

Smuggling of cigarettes reportedly increased in 1999 which may be partly reflected in official statistics indicating that legal sales of cigarettes decreased by 6.1 percent relative to 1998.

One development stemming from privatization is that employment in tobacco processing companies dropped by 11 percent from 12,000 people in December 1998 to 10,000 people in December 1999. An additional 10 percent of tobacco industry employees are expected to be laid off in 2000.

Local cigarette producers' position on the market:

	1998	1999
	%	%
Philip Morris	34	31.9
Reemtsma	24.4	22.6
Seita	15.5	13.4
BAT	11.5	10.3
House of Prince	8.7	14.1
others	6.09	7.7

Production policy

Poland's excise tax accounts for around 41 percent of cigarette prices but is still lower than the 57 percent required by the European Union. The excise tax on cigarettes increased by 27 percent in 1999. An additional 28 percent increase is planned for 2000. In 2001 a 30 percent increase is planned. Excise taxes on cigarettes differ based on the type of cigarette. Four separate categories of cigarettes have been established for excise tax purposes.

The categories and excise taxes are:

CN Code	Description	Excise tax in PLN per 1000 pcs and/or in percent applicable in the period of:		
2402.20	Tobacco products:	Jan 1 - May 31, 2000	June 1 - Sept 30, 2000	Oct 1 - Dec 31, 2000
	long Western types cigarettes produced locally and all imported cigarettes	107.10	PLN 37.50 + 25 % of retail price	PLN 42.00 + 25 % of retail price
	local brand long cigarettes	91.70		
	local brand short cigarettes	72.20		
	local brand non-filter cigarettes	70.10		
2552.30	locally produced and imported cigars	107.10	124.70	
2402.10	other tobacco products	60 %		
2403.10.10.0	imported smoking tobacco, whether or not containing tobacco substitutes in any proportion, in packaging smaler than 500 g	150 %		

A new excise tax system will be introduced as of June 1, 2000. It will consist of a per unit tax fixed for each trimester and equal for all cigarettes and an additional tax of 25 percent of the sales value in 2000. The 25 percent tax will be applied to a maximum retail price which must be printed on the cigarette packaging. In addition, the excise tax on any cigarettes sold cannot be lower than 90 percent of the excise tax for the most popular cigarettes sold in the previous year. In cases where no retail price is shown on the package, excise taxes of 70 percent and 230 percent will be applied to locally produced cigarettes and imported cigarettes, respectively. The requirement that retail prices must be printed on the package will be in force after June 1, 2001.

The new excise tax system is expected to generate over PLN 7.9 billion (\$ 2 billion) in tax revenues from cigarette production in 2000. In 1998, tax revenue from tobacco products was PLN 5.3 (\$ 1.5 billion) with PLN 6.3 billion (\$ 1.7 billion) estimated in 1999. The income from VAT and excise tax from the tobacco industry represents 6 percent of the government's budget.

In 1998 new norms for harmful substance content in tobacco products were introduced with 15 mg of tar and 1.5 mg of nicotine allowable in cigarettes. After 2003 these norms are to be reduced respectively to 12 mg of tar and 1.2 mg of nicotine.

Consumption

There are about 10 million smokers in Poland of which 45 percent are adult men and 22 percent are adult women. Per capita consumption is 2,500 cigarettes per year. Legal sales of cigarettes dropped by 6.1 percent in 1999 compared to 1998 levels. However, actual sales of cigarettes may not have decreased as much since smuggling reported increased sharply. Tobacco companies claim that the decrease in official sales and increases in smuggling resulted from the frequent increases in excise taxes and limits on advertisement adopted in 1999 by the Polish parliament.

As a result of an annually anti-smoking campaign, over 2 million Poles are estimated to have given up smoking since 1995. At the same time, the amount spent by the health service on illnesses caused by tobacco-smoking has risen. According to the Central Statistical Office, tobacco products account for about 2 percent of the typical Polish household budgets rivaling expenditure on alcohol (1.1 percent). The percentage of income spent on tobacco products has risen from 1.9 percent in 1997. The average monthly expenditure per capita on tobacco products was PLN 10.21 (\$ 2.96) in 1998 and increased to PLN 11.24 (\$ 3.21) within first nine months of 1999. Increased expenditures reflect the fact that prices of tobacco products rose 16.4 percent in 1999 while prices of other products increased only by 8.7 percent in average.

Trade

Cigarette imports continue to decline due to increasing domestic production of Western brands in Poland. 457 million pcs were imported in 1999 compared to 549 million pieces in CY 1998. Cigarette producers mentioned smuggling among the threats for their sales. Penalties are high for smugglers or those who sell cigarettes without excise tax labels, but there is a very poor control. In 1998 there were 3,429 cases opened against smugglers with the value of goods confiscated estimated at PLN 8,090,364 (\$ 2.3 million). In 1999 there were 4,678 cases opened and goods confiscated were valued at PLN 10,696,278 (\$ 2.9 million). These figures include all products classified under CN heading 2402.

Polish exports of cigarettes represented 4.6 billion pieces in 1998 and 4.7 billion pieces in 1999. Total cigarette exports in 2000 are expected to reach 5-6 billion pieces. The largest importers of Polish cigarettes in 1998 and 1999 were Slovenia, Belgium, Latvia, Russia and Ukraine.

Tariffs and non-tariff barriers

For CY 2000 tariffs and tariff rate quotas were established at the levels listed below.

CN Code	Description	Quota and Import Duty	Above quota tariffs
2402	Cigars and cigarettes:		
2402.10	Cigars	2.5 tons at 55 %	173 %, not less than EUR 19/1000 pcs
2402.20.10-90	Cigarettes	75 tons at 90 %, min EUR 9/1000 pcs	173 %, not less than EUR 19/1000 pcs
2402.90	Other	2.5 tons at 90 %	173 %, not less than EUR 19/1000 pcs
2403	Other mnfctrd, homogenized and reconstituted tobacco:	1,300 tons	
2403.10	pipe tobacco	120 %	230 %
2403.91	homogenized or reconstituted tobacco	55 %, min EUR 1.13/kg	230 %
2403.99.10	chewing and snuff tobacco	65 %	230 %
2403.99.90	other	55 %, min EUR 1.13/kg	230 %

The following quotas and tariff rates were established for 2000 with the Czech and Slovak Republics:

CN Code	Description	Quota and Import Duty
2402	Cigars, cigarettes and other manufactured, homogenized and reconstituted tobacco:	50 tons for each country
2402.10	Cigars	27.5 %
2402.20.10-90	Cigarettes	45 %, not less than EUR 4.5/1000 pcs
2402.90	Other	45 %
2403.10	pipe tobacco	60 %
2403.91	homogenized or reconstituted tobacco	27.5 %, not less than EUR 0.565/kg
2403.99.10	chewing and snuff tobacco	32.5 %

2403.99.90	other	27.5 %, not less than EUR 0.565/kg
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Marketing

According to an amended act on health prevention against the results of tobacco smoking adopted in November 1999, tobacco companies must removal all advertising with their logos from news-paper kiosks, shops, cafeterias, restaurants, pubs and other public places. Additionally, all outdoor tobacco promotion or promotions through sponsorship is prohibited. Cigarettes cannot be sold in schools, health care institutions and sports halls. Advertisement in print media will be prohibited in 2002. Health warnings must cover one-third of all labels or advertisements for tobacco products. As might be expected, consumption is not very dependent on price fluctuations.

Tobacco, Mfg., Cigarettes - PSD

PSD Table						
Country	Poland					
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Filter Production	85000	86241	87000	86100	0	85000
Non-Filter Production	10000	10500	10500	8500	0	7000
TOTAL Production	95000	96741	97500	94600	0	92000
Imports	500	549	500	457	0	450
TOTAL SUPPLY	95500	97290	98000	95057	0	92450
Exports	2000	4633	5000	4748	0	5500
Domestic Consumption	93500	92657	93000	90309	0	86950
TOTAL DISTRIBUTION	95500	97290	98000	95057	0	92450

Tobacco, Mfg., Cigarettes - Import

Export Trade Matrix			
Country	Poland		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	Jan-Dec	Units:	000PCS
Exports for:	1998		1999
U.S.	11	U.S.	9
Others		Others	
Belgium	1927180	Slovenia	1721000
Slovenia	890000	Belgium	1251400
Russia	490404	Latvia	592870
Cyprus	295441	Russia	392227
Latvia	195110	Ukraine	240509
Turkey	187880	Moldova	202942
Ukraine	151636	Turkey	136506
Germany	132037	UAE	52094
Georgia	51672	Jugoslavia	21890
Finland	48300	Germany	17218
Total for Others	4369660		4628656
Others not Listed	263452		119339
Grand Total	4633123		4748004

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